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18 APR 1969

MEMORANDUM FOR: Acting Deputy Director for Intelligence

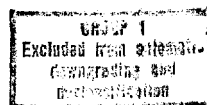
SUBJECT : Thoughts on North Korea

1. The "no military retaliation" policies following the Pueblo and EC-121 affairs can be interpreted as North Korean successes. However, U.S. policymakers should not overlook the fact that North Korea's policy of belligerence has been expensive to her, in economic terms. She is semi-isolated both within the Free and Communist Worlds. I submit the following in support of this conclusion:

a. Since 1961, North Korea has received no economic credits or grants from the USSR, Eastern Europe, or Communist China. Likewise, she has received no medium or long-term credits from Western nations despite vigorous attempts to do so. The adverse effect on imports needed for development purposes is obvious, and there has been a significant slowdown in economic growth.

b. Kim Il-song's imports from the USSR of military equipment are probably mostly on credit. It is not possible to determine what portion of these imports were provided as aid deliveries and what portion the North Koreans paid for on current account. However, whatever the terms, there has been an immediate diversion of domestic investment resources to military uses (construction and extension of airfields and naval facilities).

c. As a consequence of the military build-up, the economic goals of the five-year plan set for 1967 were postponed to 1970, and most of these are not going to be met. In contrast, South Korea's economic development has blossomed forth, benefiting most recently from heavy Japanese private investment. North Korea imported less machinery

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and equipment in 1961-67 than South Korea imported during the single year of 1967. In the post-Korean war period of the early 1950's, it was said that the South was left with the people and the North with the industry. But given the trends of the 1960's, in a few years the South will not only have most of the people, but the lion's share of industry as well.

2. It would be unfortunate if the U.S. took any action against North Korea which prompted the resumption of the subsidized flow of industrial machinery and equipment that the USSR (and to a lesser extent, Communist China) furnished during the later 1950's to the North. Things on the Korean peninsula have been going pretty well. Hopefully, we can have some effect on our allies to continue to deny credits to North Korea.

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Director
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